BRITISH COLUMBIA

Public Service Pension Plan

2004 Annual Report

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Public Service Pension Plan

2004

Annual Report

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Message from the Trustees

The Public Service Pension Board of Trustees is pleased to present this annual report for the fiscal year ending March 31, 2004. This report gives us an opportunity to tell you about the improvements and changes that took place over the past year, and to report on the financial health of the plan.

The Public Service Pension Board of Trustees is committed to providing high standards of service delivery to its members. We work hard to ensure members get prompt, friendly and efficient service, and we're pleased to report continued improvement in all areas. Client surveys indicate 96% of our retired members are satisfied or very satisfied with the quality of service they've received. In 2003 we eliminated all purchase of service backlogs and, while demand continues to grow, response times have greatly improved.

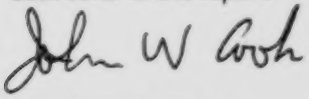
Last year we introduced a new expanded website, streamlined our retirement seminars, developed new online services, and produced many new products. Among the many new and updated publications was a retirement information package. We simplified the material and significantly reduced the forms from twenty-four to eight, helping to make the retirement process easier for our members. We also redesigned our newsletter for retired members, *PensionNews*, that provides plan-specific information and current pension news.

A new online purchase estimator and a personalized pension estimator were created to enable plan members to easily calculate purchases and pension estimates themselves. These tools and other plan products can be accessed at our new and improved website at **pensionsbc.ca**.

We're committed to ensuring that your pension plan is well managed. The trustees continue to take a long-term approach to fund management and work hard to ensure the portfolio is well diversified to provide strong long-term results. We're pleased to report that investment performance has improved significantly over the past year. A rebound of investor confidence in the stock markets led to a strong performance by Canadian, U.S. and international equities, resulting in an annual rate of return of 21.4% for the Basic Account.

To help strengthen the plan's Inflation Adjustment Account (IAA), the Public Service Pension Plan partners entered into an agreement to amend the pension plan rules. Cost-of-living increases and group health benefits are funded from the IAA. The agreement resulted in employer contributions to the IAA increasing 0.25% on April 1, 2004 and a parallel 0.25% increase to plan member contributions effective April 1, 2005.

We welcome all new members and we look forward to continuing to serve the Public Service Pension Plan. If you would like to contact us, please write, call or e-mail us at the address on the back cover of this report.



John W. Cook, Chair

Trustees as at March 31, 2004

Chair

John W. Cook

Trustee	Appointing Body	Nominating Body	Employer
Ed Bodner	BC Government Retired Employees' Association		Retired
Joyce Burns	B.C. Government and Service Employees' Union (BCGEU)	Unions other than BCGEU	BC Ferry Services Inc.
Adam Charania	Provincial Government		Public Sector Employers' Council
Bruce Clow	Provincial Government		BC Buildings Corporation
David Day	Provincial Government	BC Excluded Employees' Association	BC Excluded Employees' Association
Doug Hensby	BCGEU	Professional Employees Association	Professional Employees Association
Andy Jani	Provincial Government		Ministry of Finance
Derek Johnston	Provincial Government	Crown Corporations Employers' Association	BC Ferry Services Inc.
Bruce Kennedy	Provincial Government		Public Sector Employers' Council
Ron McEachern	Provincial Government		BC Public Service Agency
Sandi McLean	BCGEU		Ministry of Finance
Paul Martin	BCGEU		BCGEU
David Vipond	BCGEU		BCGEU
Diane Wood	BCGEU		BCGEU

Message from the Chief Executive Officer—Pension Corporation

The BC Pension Corporation is one of the largest pension benefits administrators in Canada, providing services to the Public Service Pension Plan and to five other pension plans in British Columbia.

As an agent to the Public Service Pension Board of Trustees, we provide policy, financial and communications support to the board as well as providing key administrative services such as enrolling members, collecting and recording members' and employers' contributions, and processing pension benefits.

Our vision of service delivery is to provide great value and exceptional service to each client. We worked hard in 2003 to meet or exceed the board's expectations by eliminating service backlogs, reducing costs, enhancing web-based information, simplifying the retirement process, and improving financial and performance reporting. We are committed to the rigors of comprehensive business planning, transparent reporting of results against plans, and benchmarking our performance against industry best practices.

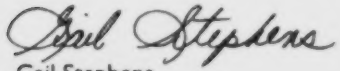
Client surveys confirm that we are succeeding in our efforts to build a client-focused culture. A survey of recently retired members of the Public Service Pension Plan shows 96% were satisfied or very satisfied with the services they received from the corporation, up from 84% in 2002.

We continue looking for ways to improve communications with plan members. By streamlining material and practicing plain-language principles, we are producing information that is easier to understand. Several publications were revamped last year, including a new retirement information and application package. We eliminated duplicate material, simplified the information, and significantly reduced the forms from twenty-four to eight. The annual Member's Benefit Statement was also redesigned to incorporate clear definitions and explanations of the members' personal pension data.

In 2003, the corporation also launched a new website that boasts easier navigation and enhanced online services. A new pension timeline section, an improved forms section and a personalized pension estimator and a purchase of service estimator all allow members to easily access information about their pension.

I would like to thank the members of the Public Service Pension Board of Trustees for the opportunity of working with you in my first year as Chief Executive Officer.

I would also like to thank the management and employees of the Pension Corporation whose dedication and hard work have made all of the innovations and improvements possible.



Gail Stephens
Chief Executive Officer
BC Pension Corporation

Message from the Chief Investment Officer—bcIMC
Public Service Pension Plan

In fiscal 2003/04 the Public Service Basic Account earned a 21.4% return and the Inflation Adjustment Account earned 23.2%. While we are pleased with the strong returns, the results largely reflect a rebound from the disappointing returns experienced during the previous three years. Our expectation is that, in a low interest rate environment, future returns will be much more modest and will likely average between 7% and 8% per annum.

Economic growth and corporate profits picked up significantly in fiscal 2003/04 and generally exceeded investors' expectations. In addition, ten-year interest rates fell from 5.1% to 4.3%. This market environment, combined with a rebound in investor confidence, meant that the plan enjoyed relatively good returns from both its equity and fixed income investments. The Canadian stock returns ranged between 37.5% and 38.7%. The fixed income returns ranged from 3.0% for money market to 14.0% for real return bonds.

The Canadian dollar rose nearly 12% relative to the U.S. dollar over the year ending March 31, 2004. This reduced returns on the plan's U.S. investments. However, British Columbia Investment Management Corporation (bcIMC) employed some currency hedging which helped to mitigate the impact of the dollar's appreciation. This is the reason why some U.S. equity portfolios exceeded their market benchmarks by a wide margin.

International equity markets were also very strong in fiscal 2003/04. The plan's returns from non-North American stocks ranged from 35.2% to 49.3%. Some of the best performers in 2003/04 were companies that had weaker balance sheets. This reflected an improvement in the global economy and the fact that markets were recovering from a period of acute risk aversion.

In fiscal 2003/04, the plan realized a 7.4% return on its real estate investments. While the results were lower than many asset classes, the returns reflect expanding development projects. Overall, stock market volatility in recent years has led to many investors wanting to increase their real estate investments in order to generate more stable returns. Unfortunately, the strong demand by both domestic and foreign investors has made it a challenging environment for bcIMC to increase the plan's real estate holdings.

Although the returns were very strong in 2003/04, the total fund underperformed relative to its market benchmark. This was attributable to an unusually large benchmark return for private placements (i.e., 72.9%) and the fact that the asset class requires a long assessment period.

A key element of managing the plan's investments is ensuring that companies act in an ethical and appropriate manner and that they are being managed in the best long-term interests of shareholders. In this regard, bcIMC is an active participant in corporate governance and in voting proxies. Last year, bcIMC became a full member of the Canadian Coalition of Good Governance.

I am proud of our energetic and service-oriented team. We appreciate the confidence of the Public Service Pension Board of Trustees and look forward to serving the plan and its membership in the years to come.

Doug Pearce
Chief Investment Officer/Chief Executive Officer
BC Investment Management Corporation

Trustees, Partners and Agents

The plan partners are the Provincial Government and the B.C. Government and Service Employees' Union (BCGEU). These partners and other organizations representing plan employers and plan members are responsible for appointing the trustees.

The **Public Service Pension Board of Trustees** is responsible for the management of the pension plan, including the investment of the assets and the administration of the plan. The board of trustees may amend the pension plan rules as long as changes can be funded by pension fund surpluses or are cost-neutral to the plan. Plan rule changes that result in contribution rate changes must be approved by the partners. If the actuary determines that it is necessary to increase contribution rates, the trustees must increase employer and member contribution rates equally.

The **British Columbia Pension Corporation** provides benefit administration services as an agent of the board of trustees. This is where members are enrolled, contributions are collected, benefits are processed, and pension payments are issued.

The **British Columbia Investment Management Corporation** (bcIMC) provides investment management services as an agent of the board of trustees. The bcIMC is one of the largest institutional investors in the country, offering a wide range of fund management services.

Member Services and Communications

The Public Service Pension Plan has a strong team of professionals devoted to providing quality and cost-effective services to plan members. Staff have made impressive gains in service improvements and efficiencies, including eliminating a backlog of purchase of service requests, adding new online services and improving client response time.

We regularly conduct surveys of plan members to evaluate the quality of our services and to identify areas for improvement. The surveys show that both active and retired members give staff a high satisfaction rating for service quality.

Communicating with plan members is a priority of the Public Service Pension Board of Trustees. Guidelines have been developed to ensure all plan information is easy to understand and easy to use. By practicing plain language principles and focus testing many of our products, we continue to improve the effectiveness of our communications products.

New and updated communications materials are regularly published, and new online products and services are continually being developed. The plan produces the annual *Member's Benefit Statement*, forms, bulletins, retirement information packages, *Pensionfacts*—a series of fact sheets—and a newsletter for retired members that is published twice a year. In addition, our website provides excellent pension plan information and online estimators at **pensionsbc.ca**.

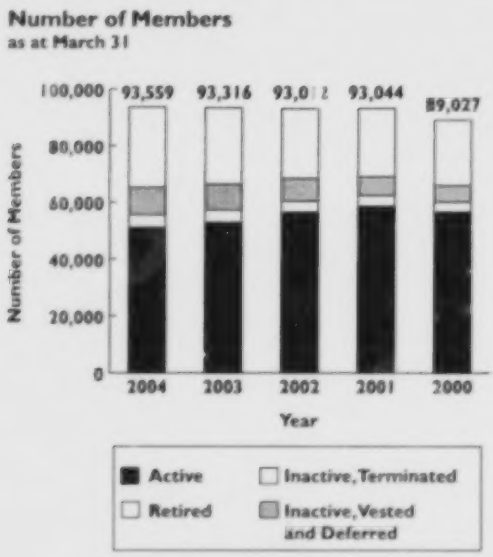
Plan Membership

Membership in the Public Service Pension Plan is open to all eligible employees of the provincial public service or other employers approved by the Public Service Pension Board of Trustees. Once an employee elects or qualifies to contribute to the plan, contributions continue as long as the employee remains with the employer, or until the employee has completed 35 years of pensionable service.

There are three categories of members in the Public Service Pension Plan:

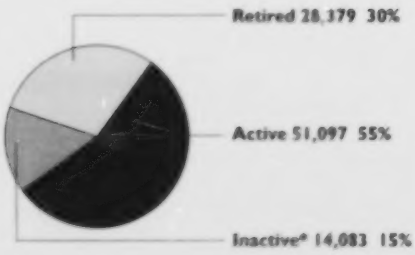
- **Active**—those currently contributing, or on a leave of absence, or receiving benefits from an approved salary continuance plan.
- **Inactive**—those who have terminated their employment with contributions deposited in the plan. They may or may not be eligible for a pension in the future. Those who are eligible are known as vested and deferred members. Even if an inactive member is not entitled to a Public Service Pension Plan benefit, they may be eligible for a pension as a result of combining their entitlement in other pension plans covered by a transfer agreement.
- **Retired**—those who are receiving a pension, including those who are receiving a disability pension.

The number of active plan members in the Public Service Pension Plan decreased by about 3% in 2003/04. Today there are over 51,000 active plan members and about 28,000 retired members.

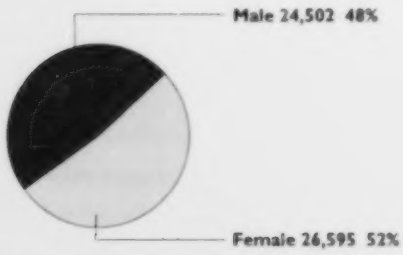


Plan Membership

2004 Membership Profile
as at March 31, 2004

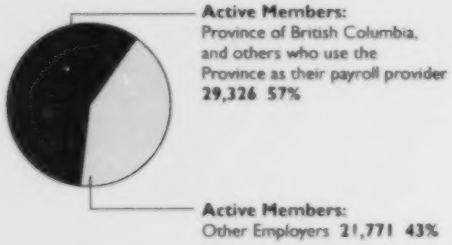


2004 Active Member Profile
as at March 31, 2004



* Members no longer employed, but with money in the plan.

Active Member Employment
as at March 31, 2004



Active Employers

Province of British Columbia

British Columbia Assessment Authority

British Columbia Buildings Corporation

British Columbia Centre for Disease Control

British Columbia Excluded Employees' Association

British Columbia Ferry Services Inc.

BC Ferry and Marine Workers' Union

B.C. Government and Service Employees' Union

British Columbia Housing Management Commission

British Columbia Investment Management Corporation

British Columbia Institute of Technology

British Columbia Mental Health Society

BC Pavilion Corporation

British Columbia Pension Corporation

British Columbia Securities Commission

British Columbia Transit

British Columbia Treaty Commission

British Columbia Utilities Commission

Canada/British Columbia Business Services Society

Child and Youth Officer for British Columbia

Coast Capital Savings

Coast Mountain Bus Company

Columbia Power Corporation

Deas Pacific Marine Inc.

Elections BC

Emergency Health Services Commission

Forensic Psychiatric Services Commission

Forest Practices Board

Fraser Marine Transportation Ltd.

Freshwater Fisheries Society of BC

Greater Vancouver Transportation Authority

Homeowner Protection Office

Innovation and Science Council of British Columbia

Insurance Corporation of British Columbia

Islands Trust

Liquor Distribution Branch

Oak Bay Lodge Society

Office and Professional Employees' International Union, Local 378

Office of the Auditor General

Office of the Conflict of Interest Commissioner

Office of the Freedom of Information and Privacy Commissioner

Office of the Ombudsman

Office of the Police Complaint Commissioner

Pacific Vehicle Testing Technologies Ltd.

Partnerships British Columbia

Professional Employees Association

Provincial Capital Commission

Regional Health Authorities (5 – Fraser, Interior, Northern, Vancouver Coastal, Vancouver Island)

St. Paul's Hospital

Tillicum and Veterans Care Society (Broadmead Lodge)

Tourism British Columbia

Union of Psychiatric Nurses

Contributions

Members of the Public Service Pension Plan contribute to the plan through automatic deductions from their salary. Both plan members and employers pay contributions to fund future pension benefits. Once a member terminates employment, retires, or reaches 35 years of pensionable service, they no longer contribute. The contribution rates in the table below are applied to pensionable salaries. In order to strengthen the plan's Inflation Adjustment Account (IAA) as recommended by the plan partners, the trustees have decided that effective April 1, 2004, employer contributions to the IAA will be increased by 0.25%, and effective April 1, 2005, member contributions to the IAA will be increased by 0.25%.

The current rates are as follows:

Plan Member

- 5.5% (includes 4.25% Basic Account, 1.25% IAA) of pensionable salary up to and including the YMPE* (effective April 1, 2005: 5.75%), and
- 7.0% (includes 5.75% Basic Account, 1.25% IAA) of pensionable salary for salary greater than the YMPE* (effective April 1, 2005: 7.25%).

Employer

- 6.5%** (includes 4.25% Basic Account, 2.25% IAA) of pensionable salary up to and including the YMPE* (effective April 1, 2004: 6.75%), and
- 8.0%** (includes 5.75% Basic Account, 2.25% IAA) of pensionable salary for salary greater than the YMPE* (effective April 1, 2004: 8.25%).

Contributions to the Basic Account are used to fund basic pension benefits. Contributions to the IAA are used to fund inflation protection benefits. In addition, current employer contributions may be available to fund group benefits not to exceed 50% of the total of current member and employer IAA contributions. Benefits such as group health benefits and inflation protection are not guaranteed.

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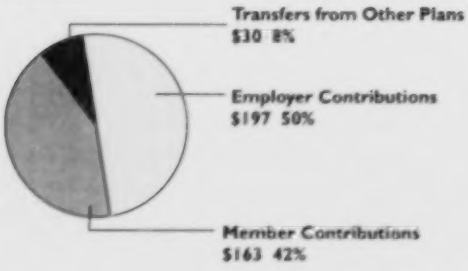
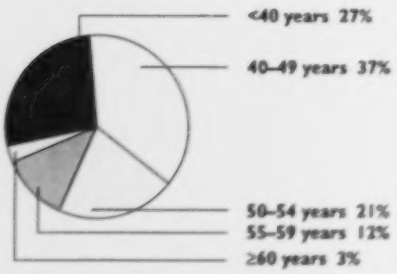
* Year's Maximum Pensionable Earnings (YMPE) is the earnings on which you make Canada Pension Plan (CPP) contributions. The 2003 YMPE was $39,900, and was increased to $40,500 in 2004.

** Except for certain limited groups (e.g., correctional centre employees, ambulance employees, provincial court judges, masters of the supreme court, and some deputy ministers and officers of the Legislature) where employers pay a higher rate to compensate for the additional cost of their benefits.

2003/04 Contribution Revenue
$ Millions

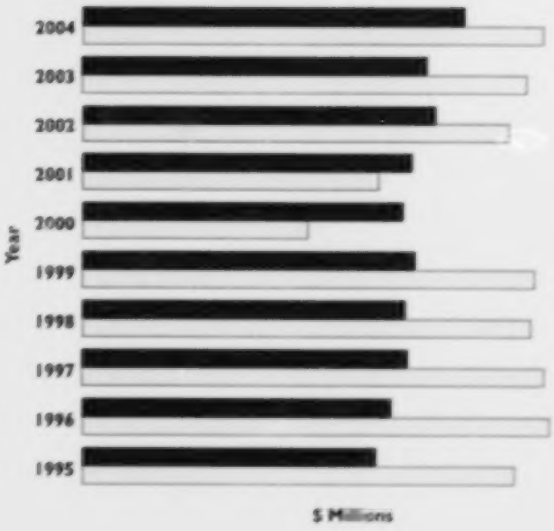


Age Profile of Active Members
as at March 31, 2004



Contributions
year ended March 31

Member	Employer
163.2	197.0
147.5	190.3
150.9	182.3
141.0	126.9
137.0	96.4
142.2	193.6
138.1	191.9
139.3	197.9
132.1	200.0
125.5	185.0



Plan Benefits

Pensions

Plan benefits are defined by the pension plan rules made under the authority of the joint trust agreement. The following is a general description of plan benefit rules. Your basic pension benefit is defined, meaning your pension is based on how many pensionable years you were an active member, the average of your five highest years of salary (not necessarily your last five years) and your age at retirement. Your pension is not based on how much you contributed to the plan, nor is it based on the investment performance of the plan's assets. The advantage of a defined benefit plan is that your pension is predictable. Members are entitled to a pension benefit after two years of contributory service and after having reached a qualifying age.

The plan also provides survivor and disability benefits. Benefits such as inflation protection to the basic pension and group health benefits are not guaranteed, and are contingent on available funding. The board monitors the ability to continue to provide these benefits on an ongoing basis.

On January 1, 2004, retired members received a full Consumer Price Index (CPI) increase of 2.2% (2003: 2.3%). Inflation increases to the pension may be provided each year, based on the annual increase in the CPI. (See Note 7b to the Financial Statements).

In 2003/04 the Public Service Pension Plan provided pensions to approximately 28,000 retired members, an increase of 5% in retired members from the previous year.

The table below shows the average asset value ("present value") of regular pension new starts during 2003/04. The value represents approximately how much it would cost to purchase an average basic pension provided under the Public Service Pension Plan.

Average Values of Regular Pensions — New Starts April 1, 2003 to March 31, 2004
Subdivided by years of service

Years of Service*	Number of Pension New Starts	Average Annual Salary Base	Average Annual Pension	Average Present Value of Pensions	Total Present Value of Pensions ($ Millions)
<10 years	127	49,000	5,000	67,000	8.5
10–14	209	47,000	9,000	132,000	27.6
15–19	204	47,000	12,000	182,000	37.1
20–24	286	50,000	17,000	268,000	76.6
25–29	364	53,000	23,000	375,000	136.5
30–34	333	56,000	28,000	476,000	158.5
35 years	115	55,000	29,000	492,000	56.6
Total	**1,638**	**n/a**	**n/a**	**n/a**	**$501.4**
Average of all Pensions	n/a	$51,000	$19,000	$306,000	n/a

* Years of service includes service transferred from other plans.

Pensions 1994–2004

	Public Service			MLA			$ Millions		
	New Starts during Year	Pension Terminations	In Force at End of Year	New Starts during Year	Pension Terminations	In Force at End of Year	Basic Pensions Paid	Inflation Supplements Paid	Total
2003/04	**2,005**	**570**	**28,379**	**2**	**2**	**123**	**329.9**	**76.1**	**406.0**
2002/03	2,865	536	26,944	–	3	123	294.3	71.1	365.4
2001/02	1,149	500	24,615	26	2	126	250.7	66.1	316.8
2000/01	1,264	454	23,966	1	1	102	234.4	61.1	295.5
1999/00	1,066	505	23,156	2	2	102	220.2	56.6	276.8
1998/99	981	447	22,595	1	2	102	211.3	55.6	266.9
1997/98	2,178	414	22,061	–	3	103	203.1	54.2	257.3
1996/97	1,321	415	20,297	12	2	106	173.0	52.8	225.8
1995/96	1,088	382	19,391	–	1	96	160.7	50.2	210.9
1994/95	880	343	18,685	1	–	97	152.0	50.1	202.1

Transfers from the Members of the Legislative Assembly Superannuation Account, 1994–2004

$ Thousands

	Present Value of Pensions Transferred	Inflation Adjustment Contributions Transferred
2003/04	**901**	–
2002/03	–	1
2001/02	12,964	9
2000/01	222	42
1999/00	559	56
1998/99	188	60
1997/98	–	25
1996/97	4,687	43
1995/96	–	103
1994/95	246	114

When a Member of the Legislative Assembly receives a pension, the present value of the pension is transferred from the Members of the Legislative Assembly Superannuation Account to the Public Service Pension Plan, which pays the monthly benefit.

Pensions—New Starts by Type 1994–2004

	Regular*	Death*	Disability+	Deferred	Total
2003/04	**1,638**	**37**	**136**	**194**	**2,005**
2002/03	2,344	46	317	158	2,865
2001/02	877	38	116	118	1,149
2000/01	1,017	45	106	96	1,264
1999/00	808	43	86	129	1,066
1998/99	729	40	77	135	981
1997/98	1,741	21	293	123	2,178
1996/97	1,049	27	172	73	1,321
1995/96	862	28	98	100	1,088
1994/95	684	27	83	86	880

* Pension new starts do not include pensions continued to a beneficiary upon the death of a retired member.

+ Includes members on long-term disability who became eligible for a regular pension.

2003/04 Regular Pensions—New Starts by Age at Retirement
Normal Retirement, Age 60

Subdivided by years of service and age at retirement

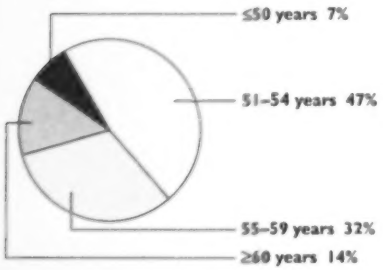
Years of Service	50	51–54	55–59	60	Total
<10 years	–	1	2	–	3
10–14	2	1	6	3	12
15–19	–	7	6	3	16
20–24	1	6	5	2	14
25–29	3	18	4	1	26
30–34	–	5	3	1	9
≥35 years	–	–	1	1	2
Total	**6**	**38**	**27**	**11**	**82**
Average age 55					

2003/04 Regular Pensions—New Starts by Age at Retirement
Normal Retirement, Age 65

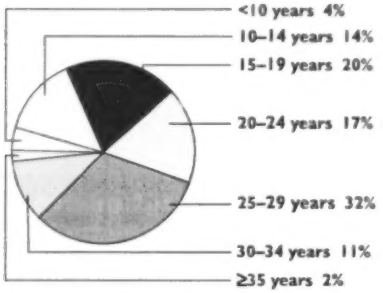
Subdivided by years of service and age at retirement

Years of Service	55	56–59	60–64	65	Total
<10 years	16	48	43	23	130
10–14	26	71	82	18	197
15–19	25	45	53	14	137
20–24	48	132	95	16	291
25–29	115	160	84	14	373
30–34	136	122	51	3	312
≥35 years	51	39	26	–	116
Total	**417**	**617**	**434**	**88**	**1,556**
Average age 58					

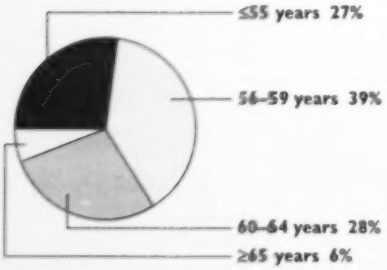
Percentage of 2003/04 Regular Pension New Starts
by Age—Normal Retirement Age 60



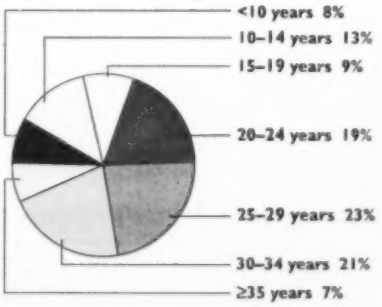
Percentage of 2003/04 Regular Pension New Starts
by Years of Service—Normal Retirement Age 60



Percentage of 2003/04 Regular Pension New Starts
by Age—Normal Retirement Age 65



Percentage of 2003/04 Regular Pension New Starts
by Years of Service—Normal Retirement Age 65



Termination and Refund Benefits

A terminating member who is eligible for a pension, but has not yet reached the earliest retirement age, may choose:

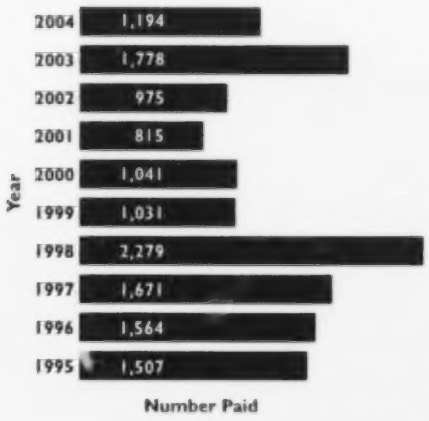
- a deferred pension; or
- transfer of the commuted value of the pension benefit (the minimum value is the member's contributions with interest) to a locked-in registered retirement savings plan or a similar tax-sheltered plan.

A terminating member may also choose to leave monies on deposit in the pension plan in anticipation of future entitlements. If a member is under 60 with less than two years of service, they may also choose a refund of contributions with interest.

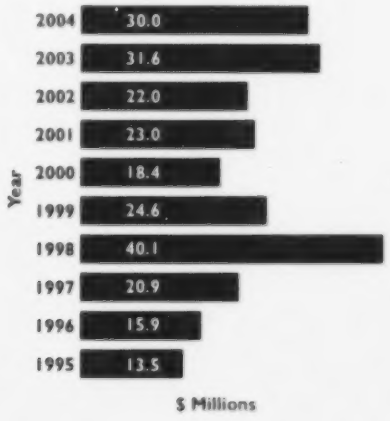
Interest compounds semi-annually and is credited to the member's contribution balance. The balance, including interest, is included in the annual *Member's Benefit Statement*. The rate of interest is governed by pension standards legislation and is based on average five-year bank personal term deposit rates (2004—2.85%; 2003—3.74%).

The number and value of termination benefits paid can vary from year to year, depending on the employment environment, the type of benefit paid, and the plan member's entitlement. In 2003/04, the number of termination benefits paid decreased compared to 2002/03.

Number of Termination and Refund Benefits Paid
year ended March 31



Value of Termination and Refund Benefits Paid
year ended March 31



Termination benefits paid include refunds of contributions and commuted-value payments; deferred pensions are included in pension statistics.

Transferring Service

Transfer agreements allow pension plan members to carry pension rights from one plan to another. Members may carry their years of pensionable service and contributions to a new plan, at a different place of employment, if the new plan has an agreement with the Public Service Pension Plan. Employers that allow pension plan members to transfer their pension rights to other pension plans are called "reciprocal employers". In order to transfer service, the member must have left their contributions on deposit, or reinstated service. Service may not be transferred on a one-to-one basis, but depends on differences in plan benefits. Members of the plan who have made contributions to another pension plan may want to inquire about transfer agreements.

Transfer agreements are in place between the plan and the three large BC public sector plans (College, Municipal and Teachers'), and other plans that have signed agreements. In 2003/04, there were 841 reciprocal transfers-in from other pension plans and 956 transfers-out. The transfers-in totalled $29.7 million; transfers-out totalled $44.5 million.

Purchase of Additional Service

Members of the plan may be able to increase their future pension benefits by purchasing periods of past service. Purchasing service means paying for periods of employment that have not already been counted as service with the plan. This service may include:

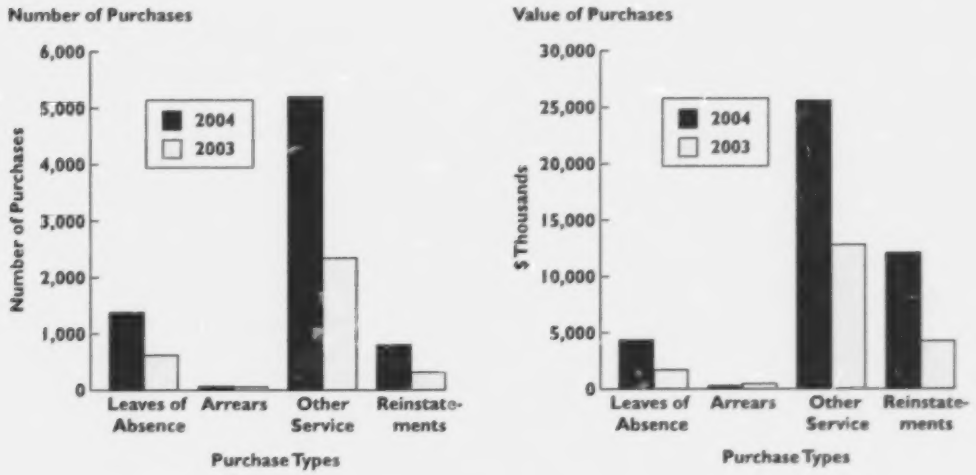
- Leaves of Absence (maternity, parental, or other leave)
- Arrears Contributions (not enrolled but eligible to buy back missed contributions)
- Other Service (employment service before becoming a regular contributor), or
- Reinstatements (contributions previously refunded from the plan).

Purchase of service rules changed April 1, 2002. There is a deadline for members to apply to purchase historical periods of service by March 31, 2007. Beginning April 1, 2007, members may only purchase periods of service that occurred during the previous five years, provided the member applies to purchase prior to terminating employment. More information about purchasing service, including costs, is available on the plan website at **pensionsbc.ca**.

In 2003/04 the number of purchases of additional service increased 123% from 2002/03. The value of the purchases increased 120%.

Member and Employer Purchases of Additional Service

year ended March 31



Investments

Market Review

One of the major roles of the board of trustees as fiduciary for the plan is the responsibility for overseeing the investment of more than $13 billion in assets for the long-term benefit of the plan and its members. The most important issue for any pension plan is long-term results, and the board's goal is to achieve consistent and steady performance over the longer term based on a disciplined approach and prudent decision making.

The board of trustees approves the long-term asset mix policy for the investment assets and oversees the management of those assets through the board's investment management agent, the British Columbia Investment Management Corporation (bcIMC).

Diversification of investments is a key principle in the approved asset policy. Investments are held in a range of asset types (bonds, equities, real estate, etc.), industry sectors, and global markets.

There was a significant improvement in this year's investment results. Fixed income (bonds and mortgages) and real estate continued to provide solid returns. In addition, after three disappointing years, stock markets experienced a significant rebound in 2003/04. For example, Canadian stocks, as measured by the Toronto Stock Exchange Composite index, were up 37.7%.

Overall for the year, the plan's Basic Account recorded a 21.4% annual return on its investment portfolio. On a five-year basis, the return for the plan's Basic Account was 5.7%.

While we are thankful for the stronger-than-expected results, our outlook is that future total returns will not be as strong and will typically fall in the 7.0% to 8.0% range. This is consistent with the plan's longer-term objectives.

Approved Investment Asset Mix

Strategic and short-term asset allocation targets are set within the ranges in the Basic Account Investment Asset Mix and Performance table below. Short-term, for asset mix purposes, includes government bonds with one- to five-year terms and money market funds.

Basic Account Investment Asset Mix and Performance

March 31, 2004

Asset Class	Approved Range (%)	Actual % of Assets	Rate of Return	Performance Benchmark*
Debt	**25–45**			
Short-term	0–5	3.6	5.5%	4.6%
Mortgages	0–10	3.8	9.5%	8.4%
Bonds	17–28	24.2	11.1%	10.9%
Real Return Bonds	0–10	2.1	13.0%	15.3%
Equity	**55–75**			
Canadian Equities	15–25	23.0	38.2%	37.7%
U.S. Equities	10–20	14.8	31.0%	23.1%
International Equities	10–20	16.2	39.9%	41.5%
Real Estate	8–15	9.3	7.4%	4.7%
Private Placements	0–10	3.0	**	**

* Benchmarks are standards to compare against actual investment returns.

** Annual rate of return not available.

Investment Portfolio

Investments are stated at fair market value and consist primarily of direct ownership in units of pooled investment portfolios. The units of pooled investment portfolios are valued regularly, based on the value of the underlying assets. Income from investments represents pooled investment portfolio income attributable to the plan as a unit holder.

Investments Held as at March 31, 2004

	Market Value ($ Thousands)	Asset Mix Market Value (%)
Money Market	265,372	2
Bonds		
Government	1,933,159	15
Corporate	573,760	4
Long-term	519,142	4
Short-term (to 5 years)	179,420	1
Canadian Equities		
Indexed	1,995,588	15
Actively Managed	1,034,343	8
U.S. Equities		
Indexed	1,471,321	11
Actively Managed	476,117	4
International Equities		
Asia	430,597	3
Europe	624,494	5
Europe, Australia and the Far East	1,096,622	8
Real Estate	1,212,292	9
Mortgages	501,283	4
Private Placements	351,391	3
Foreign Currency	22,725	–
Total Pooled Portfolios	**12,687,626**	**96%**
Real Return Bonds	521,407	4%
Total Investments	**13,209,033**	**100%**
2003 Comparison	10,866,861	

For further information on the investment portfolio, visit the British Columbia Investment Management Corporation website at **www.bcimc.com**

Investments Held as at March 31, 2004

Top Ten Holdings (Underlying investments are in pooled portfolios.)

Canadian Equities

Company	Market Value ($ Thousands)	% of Total
Bank of Nova Scotia	$ 133,333	4.4%
Royal Bank of Canada	126,958	4.2%
Toronto Dominion Bank	111,875	3.7%
Manulife Financial	98,121	3.2%
Nortel Networks	96,236	3.2%
Encana Corporation	95,502	3.2%
Canadian Imperial Bank of Commerce	85,017	2.8%
Bank of Montreal	84,191	2.8%
Alcan Inc	79,858	2.6%
BCE Inc	68,499	2.2%
Total Top Ten	**$ 979,590**	**32.3%**
Total Canadian Equities	**$3,029,932**	

U.S. Equities

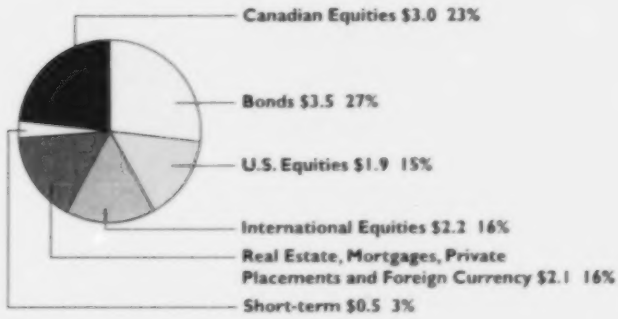
Company	Market Value ($ Thousands)	% of Total
Citigroup Inc	$ 42,067	2.2%
Exxon Mobil Corp	32,827	1.7%
Amern Intl Group	27,143	1.4%
Pfizer Inc	23,480	1.2%
General Electric	21,430	1.1%
Microsoft Corp	20,036	1.0%
Bank of America	16,194	0.8%
Wal-Mart Stores	15,569	0.8%
Verizon Communication	12,569	0.7%
Hewlett Packard	12,258	0.6%
Total Top Ten	**$ 223,573**	**11.5%**
Total U.S. Equities	**$1,947,437**	

International Equities

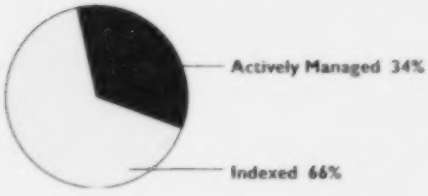
Company	Market Value ($ Thousands)	% of Total
Vodafone Group	$ 48,378	2.3%
Total Fina Elf	36,636	1.7%
HSBC Holdings	35,865	1.7%
BP	34,863	1.6%
Glaxosmithkline	31,999	1.5%
Nestle SA	30,657	1.4%
Novartis AC	30,594	1.4%
Astrazeneca	25,340	1.2%
UBS AG	24,325	1.1%
ENI	23,708	1.1%
Total Top Ten	**$ 322,365**	**15.0%**
Total International Equities	**$2,151,713**	

Investments Held as at March 31, 2004

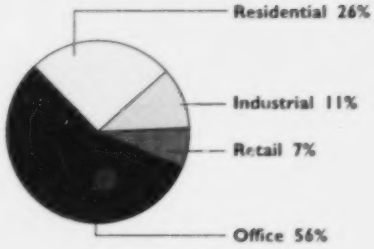
2004 Investment Holdings (Market Value)
$ Millions


Canadian Equities $3.0 23%
Bonds $3.5 27%
U.S. Equities $1.9 15%
International Equities $2.2 16%
Real Estate, Mortgages, Private Placements and Foreign Currency $2.1 16%
Short-term $0.5 3%

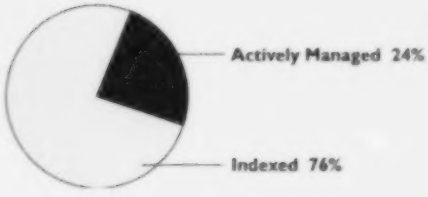
Canadian Equities (Market Value)



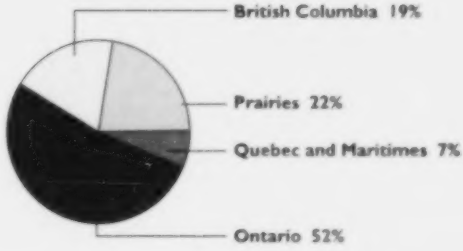
Real Estate, by Type



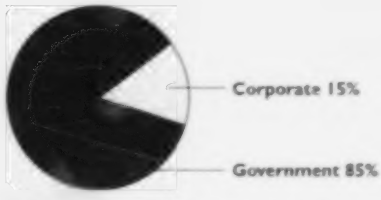
U.S. Equities (Market Value)



Real Estate, by Location



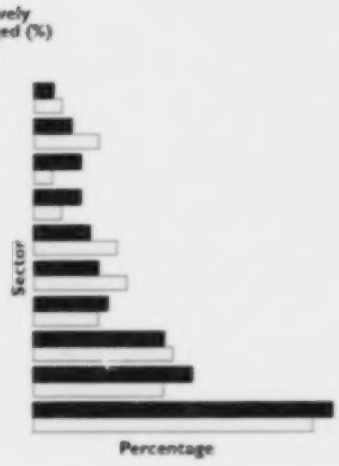
Bonds (Market Value)



Investments Held as at March 31, 2004

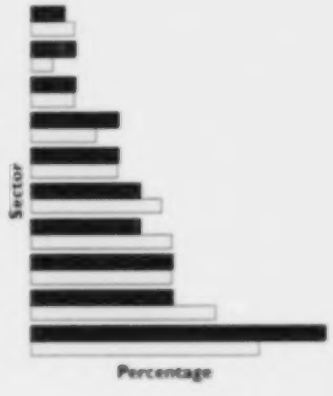
Canadian Equities, by Sector

	Indexed (%)	Actively Managed (%)
Health Care	2.0	3.0
Consumer Staples	4.0	7.0
Utilities	5.0	2.0
Telecommunications	5.0	3.0
Industrial Products	6.0	9.0
Consumer Discretionary	7.0	10.0
Information Technology	8.0	7.0
Energy	14.0	15.0
Materials	17.0	14.0
Financial Services	32.0	30.0
	100%	100%



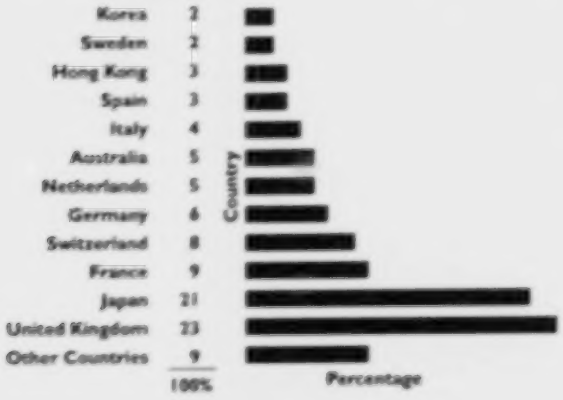
U.S. Equities, by Sector

	Indexed (%)	Actively Managed (%)
Materials	3.0	4.0
Utilities	4.0	2.0
Telecommunications	4.0	4.0
Energy	8.0	6.0
Consumer Staples	8.0	8.0
Industrial Products	10.0	12.0
Health Care	10.0	13.0
Consumer Discretionary	13.0	13.0
Information Technology	13.0	17.0
Financial Services	27.0	21.0
	100%	100%



Investments Held as at March 31, 2004

International Equities (%)



Market Value Rates of Return for the Year Ended March 31, 2004

	Basic Account (%)	Inflation Adjustment Account (%)	Basic Account Performance Benchmarks (%)	
Five-year Average Rates				
2003/04	5.7	6.3	5.6	
2002/03 Comparison	2.2	2.5	1.9	
Annual Rates				
2003/04	21.4	23.2	24.1	
2002/03 Comparison	-8.9	-8.0	-10.2	
2003/04 Annual Rates by Investment Category				**2003/04 Performance Benchmark* Indices**
Short-term				
Money Market	3.0	3.0	3.0	SCI 91-Day Treasury Bills
Bonds	7.8	7.8	7.8	SCI All Gov't Short-term
Bonds				
Government	10.5	10.5	10.1	SCI All Government
Corporate	11.9	11.9	12.7	SCI All Corporate Universe
Long-term	13.0	13.0	12.7	SCI All Government Long-term
Real Return	13.0	14.0	15.3	SCI Real Bond
Canadian Equities				
Actively Managed	38.2	38.2	37.7	S&P/TSX
Indexed	37.5	37.5	37.7	S&P/TSX
U.S. Equities				
Actively Managed	23.5	23.5	21.6	R 1000
Indexed	20.5	20.5	20.5	S&P 500
Value	36.1	36.1	28.6	S&P Value
Enhanced	21.3	21.3	21.6	R 1000
International Equities				
Asia	49.3	49.3	47.9	MSCI Pacific Net
Europe	35.2	35.2	37.6	MSCI Europe Net
Europe, Australia and the Far East	38.9	38.9	40.8	MSCI Europe, Australia, Far East Net
Real Estate	7.4	7.4	4.7	CPI + 4%
Mortgages				
Fixed-term	10.0	10.0	9.4	SCI Short-term Bonds + 1%
Construction	6.4	6.4	5.4	SCI One-year Bill + 1%
Specialty	10.9	10.9	6.9	SCI One-year Bill + 2.5%
Private Placements	**	**	**	NB Small Capital (weighted) + 4.5%

* Benchmarks are standards to compare against actual investment returns.

** Annual rate of return not available.

Performance Benchmark Indices Abbreviations

CPI	=	Consumer Price Index
MSCI	=	Morgan Stanley Capital International
NB	=	Nesbitt Burns
R	=	Russell
SCI	=	Scotia Capital Inc.
S&P	=	Standard & Poor's
S&P/TSX	=	Standard & Poor's/Toronto Stock Exchange Composite

(Source of annual rates: British Columbia Investment Management Corporation)

Financial Health

The Public Service Pension Plan is financially sound. The fund holds a diversified portfolio of debt and equity investments that offer consistent and steady performance over the long term.

Every three years, an independent actuary assesses the financial health of the plan and the adequacy of the contribution rates for funding the plan. The actuarial valuation as at March 31, 2002 indicated a funding surplus for basic pension benefits of $546 million. The joint trust agreement specifies how surplus assets can be used. The next valuation will be as at March 31, 2005.

An unfunded liability indicates that there is a shortfall between the benefits that are promised and the assets that are available to pay for these benefits, whereas a surplus indicates all basic benefits are funded.

Latest Actuarial Valuation as at March 31, 2002

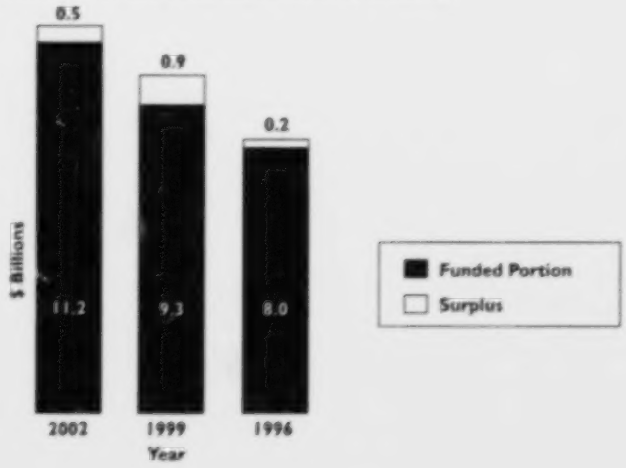
$ Millions

	Basic Pension Benefits Net Surplus		
	2002	**1999**	**1996**
For Funding Purposes*	546	929	222
Ratio of Surplus (Unfunded Liability) to Covered Payroll	23%	41%	10%
For Accounting Purposes to March 31	1,651	1,086	209

* Assuming contributions continue at rates in effect at the valuation date.

* See Note 7 and 8 to the Financial Statements for additional explanation.

Funding of the Total Basic Benefit Liability

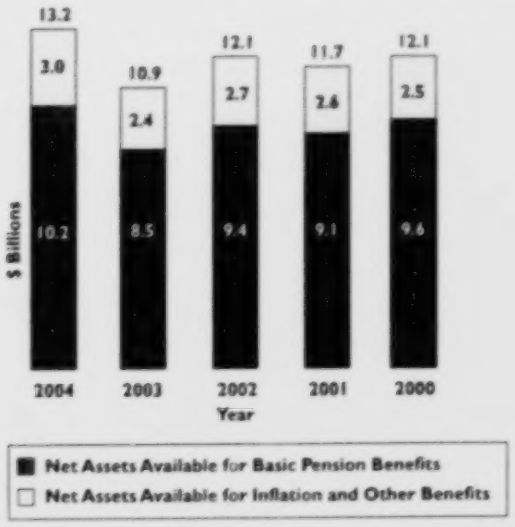


Five-year Financial Summary

$ Thousands

For the year ended March 31	2004	2003	2002	2001	2000
Increase (Decrease) in Assets					
Investment Income (Loss)	**2,388,875**	(1,035,429)	447,619	(311,161)	1,902,509
Contributions					
Employers	**196,982**	190,320	182,297	126,929	96,420
Members	**163,154**	147,465	150,888	140,960	137,041
Transfers from Other Plans	**29,713**	18,235	32,377	9,294	4,688
Total Increase (Decrease) in Assets	2,778,724	**(679,409)**	**813,181**	**(33,978)**	**2,140,658**
Decrease in Assets					
Pension Benefits	**406,007**	365,429	316,770	295,545	276,743
Termination and Refund Benefits	**30,049**	31,607	21,927	22,952	18,411
Transfers to Other Plans	**44,452**	44,806	20,370	13,810	5,080
Retired Member Group Benefits	**26,436**	46,660	33,216	8,636	8,468
Investment and Administration Costs	**28,297**	26,634	25,271	22,734	19,192
Total Decrease in Assets	535,241	**515,136**	**417,554**	**363,677**	**327,894**
Increase (Decrease) in Net Assets	**2,243,483**	(1,194,545)	395,627	(397,655)	1,812,764
Net Assets Available for Benefits at Beginning of Year	**10,921,260**	12,115,805	11,720,178	12,117,833	10,305,069
Net Assets Available for Benefits at End of Year	**$13,164,743**	$10,921,260	$ 12,115,805	$11,720,178	$12,117,833
			As a Percentage of Net Assets		
Benefit Administration Costs	**0.07**	0.09	0.07	0.06	0.06
Investment Management Costs	**0.14**	0.16	0.14	0.14	0.10

Net Assets Available for Benefits
as at March 31



Financial Statements

PENSION
CORPORATION

Executive Offices

Mailing Address:
PO Box 9460
Stn Prov Govt
Victoria BC
V8W 9V8

Location:
2995 Jutland Road
Victoria BC
V8T 5J9

Phone:
250-387-8201
1-800-663-8823
Fax:
250-387-4099

PUBLIC SERVICE PENSION PLAN

ADMINISTRATIVE AGENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The financial statements of the Public Service Pension Plan (Plan) were prepared by the British Columbia Pension Corporation (Pension Corporation), the administrative agent for the Board of Trustees (Board) of the Plan. The Board is responsible for having annual financial statements prepared in accordance with generally accepted accounting principles. The Pension Corporation prepares the financial statements on the Board's behalf and is responsible for the integrity and fairness of the data presented, including significant accounting judgements and estimates. This responsibility includes selecting appropriate accounting policies consistent with generally accepted accounting principles in Canada. Other financial information contained in the Public Service Pension Plan Annual Report conforms to these financial statements.

In discharging its responsibility for the integrity and fairness of the financial statements, the Pension Corporation maintains the internal controls necessary to provide reasonable assurance that relevant and reliable financial information is produced and that assets are properly safeguarded.

The firm of Eckler Partners Ltd. has been appointed the independent consulting actuary to the Plan by the Board. The role of the actuary is to complete an actuarial valuation of the Plan in accordance with accepted actuarial practice; the results of the valuation are included in the financial statements.

The firm of KPMG LLP has been appointed the independent auditor to the Plan by the Board. The role of the auditor is to perform an independent audit of the financial statements of the Plan in accordance with Canadian generally accepted auditing standards. The resulting audit opinion is set out in the Auditors' Report attached to these financial statements.

SHELDON SCHWARTZ, C.F.A.,
Chief Financial Officer
British Columbia Pension Corporation

SANDRA LENZ, C.A.,
Director, Finance
British Columbia Pension Corporation

July 16, 2004

KPMG LLP
Chartered Accountants
St. Andrew's Square II
800 - 730 View Street
Victoria BC V8W 3Y7

Telephone (250) 480-3500
Telefax (250) 480-3539
www.kpmg.ca

AUDITORS' REPORT

To the Members of the Public Service Pension Plan

We have audited the statement of net assets available for benefits of the Public Service Pension Plan as at March 31, 2004 and the statement of changes in net assets available for benefits for the year then ended. These financial statements are the responsibility of the Plan's administrator. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the Plan's net assets available for benefits as at March 31, 2004 and the changes in its net assets available for benefits for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Victoria, Canada
July 16, 2004

KPMG LLP, a Canadian limited liability partnership is the Canadian member firm of KPMG International, a Swiss cooperative.

PUBLIC SERVICE PENSION PLAN
STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS
($ Thousands)

As at March 31	2004	2003
ASSETS		
Investments (Note 3)	$ 13,209,033	$ 10,866,861
Receivables		
Members' contributions	5,148	1,832
Employers' contributions	7,368	7,154
Accrued investment income	5,685	5,446
Due from sale of investments	4,795	61,135
	22,996	75,567
Prepaid expenses	1,053	3,435
Cash	-	1,601
Total Assets	13,233,082	10,947,464
LIABILITIES		
Payable for purchase of investments	55,432	9,451
Accounts payable and accrued expenses	12,907	16,753
Total Liabilities	68,339	26,204
NET ASSETS AVAILABLE FOR BENEFITS	$ 13,164,743	$ 10,921,260

All accompanying notes are an integral part of these financial statements including:

- Actuarial Valuation of the Basic Account for Funding Purposes (Note 7)
- Actuarial Valuation of the Basic Account for Accounting Purposes (Note 8)
- Commitments (Note 11)

John W. Cook, F.C.I.A.
Chair and Trustee
Public Service Pension Board of Trustees

Ron McEachern
Trustee
Public Service Pension Board of Trustees

Diane Wood
Trustee
Public Service Pension Board of Trustees

PUBLIC SERVICE PENSION PLAN
STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
($ Thousands)

For the year ended March 31	Basic Account	Inflation Adjustment Account	Supplemental Benefits Account	Totals 2004	2003
INCREASE (DECREASE) IN ASSETS					
Investment income (loss) (Note 4)	$ 1,811,806	$ 577,069	$ -	$ 2,388,875	$ (1,035,429)
Contributions (Note 5)					
Employers'					
Province of British Columbia	83,009	21,538	18,813	125,360	119,119
Other	49,696	13,767	10,159	73,622	71,201
	132,705	35,305	28,972	196,982	190,320
Members'	128,744	34,356	54	163,154	147,465
	261,449	69,661	29,026	360,136	337,785
Transfers from other plans	21,220	7,592	-	28,812	18,235
Transfers from MLA Superannuation Account (Note 9)	901	-	-	901	-
Total Increase (Decrease) in Assets	2,095,376	654,322	29,026	2,778,724	(679,409)
DECREASE IN ASSETS					
Pension benefits					
Contributory	327,777	-	2,106	329,883	294,365
Indexing supplements	76,048	-	76	76,124	71,064
	403,825	-	2,182	406,007	365,429
Termination and refund benefits	19,943	10,002	104	30,049	31,607
Transfers to other plans	32,132	12,320	-	44,452	44,806
Retired member group benefits	-	-	26,456	26,456	46,660
Investment and Administration costs (Note 9)	23,721	4,272	304	28,297	26,634
Total Decrease in Assets	479,621	26,594	29,026	535,241	515,136
INCREASE (DECREASE) IN NET ASSETS BEFORE TRANSFERS	1,615,755	627,728	-	2,243,483	(1,194,545)
Account transfers (Note 6)	78,162	(78,162)	-	-	-
INCREASE (DECREASE) IN NET ASSETS	1,693,917	549,566	-	2,243,483	(1,194,545)
NET ASSETS AVAILABLE FOR BENEFITS AT BEGINNING OF YEAR	8,461,825	2,459,435	-	10,921,260	12,115,805
NET ASSETS AVAILABLE FOR BENEFITS AT END OF YEAR	$ 10,155,742	$ 3,009,001	$ -	$ 13,164,743	$ 10,921,260

Supplemental Benefits Account (Note 10)

PUBLIC SERVICE PENSION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2004

1. DESCRIPTION OF THE PUBLIC SERVICE PENSION PLAN

The Public Service Pension Plan (Plan) is a jointly trusteed pension plan governed by a Joint Trust Agreement (Agreement). Joint trusteeship was established January 1, 2001. The ongoing partners to the Agreement are the Province of B.C. and the B.C. Government and Service Employees' Union (Partners). The Agreement describes the composition, appointment, powers, functions and duties of the Public Service Pension Board of Trustees (Board) and provides authority for the Board to make Plan rules. The following brief description of the Plan is provided for general information only. For more information please refer to the Joint Trust Agreement and the Plan rules.

a) General

The Plan is open to eligible employees of the Province of B.C. and certain crown corporations, agencies, institutions and other employers approved by the Board.

b) Roles and Responsibilities

The Board of Trustees
The Partners are responsible for directing amendments to the Plan, if certain conditions are met, and for resolving trustee disputes. The Board consists of up to fifteen members. The Partners and key stakeholders appoint fourteen members representing Plan members and Plan employers. The other trustees appoint the fifteenth member, the chair. The Board is fully responsible for the management of the Plan, including the investment of the assets and the administration of the Plan. The Board may amend the Plan rules as long as changes can be funded by pension fund surpluses or are cost-neutral to the Plan. Unless required to ensure compliance with regulatory enactments applicable to the Plan, Plan rule changes that result in contribution rate changes can only be initiated by the Partners.

British Columbia Pension Corporation (Pension Corporation)
The Pension Corporation provides benefit administration services as an agent of the Board.

British Columbia Investment Management Corporation (bcIMC)
bcIMC provides investment management services as an agent of the Board.

PUBLIC SERVICE PENSION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2004

1. DESCRIPTION OF THE PUBLIC SERVICE PENSION PLAN (continued)

c) Contributions

Basic Account
Members contribute to the Basic Account 4.25% of salaries up to and including the Canada Pension Plan Year's Maximum Pensionable Earnings (YMPE) ($40,500 in 2004) and 5.75% of salaries above the YMPE, less amounts allocated to the Supplemental Benefits Account (See Notes 5 and 10).

Employer contributions to the Basic Account match those for members except for certain limited groups (e.g. correctional centre employees, ambulance employees, provincial court judges, masters of the supreme court, and some deputy ministers and officers of the Legislature) where employers pay a higher rate to compensate for the additional cost of their benefits, less amounts allocated to the Supplemental Benefits Account (See Notes 5 and 10).

Inflation Adjustment Account and Supplemental Benefits Account
Members contribute 1.25% (1.5% effective April 1, 2005) of salaries to the Inflation Adjustment Account (IAA). Employers contribute 2.25% of salaries to the IAA (2.5% effective April 1, 2004), less amounts allocated to the Supplemental Benefits Account (See Notes 5 and 10).

d) Pension Benefits

All members with two years of contributory service are eligible for a pension benefit.

Members are eligible for unreduced pension benefits:

- at age 65 (age 60 for certain groups);
- at age 60, with at least 2 years contributory service (age 55 for certain groups); or
- at age 55 or older, where age plus years of service equals 85 or more or
- at age 50 or older, where age plus years of service equals 85 or more for certain groups.

Other retiring members have a reduction formula applied to their pensions.

The defined basic plan benefit is integrated with the Canada Pension Plan (CPP). As a result, the Plan provides an unreduced benefit of 1.35% (1.3% for members who terminated prior to March 1, 2002) of pensionable earnings up to the YMPE, and 2% of pensionable earnings over the YMPE, for each year of pensionable service (to a maximum of 35 years).

PUBLIC SERVICE PENSION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2004

1. DESCRIPTION OF THE PUBLIC SERVICE PENSION PLAN (continued)

d) Pension Benefits (continued)

Pensionable earnings are based on the member's five-year highest average salary (HAS). The Plan also provides a bridge benefit payable to age 65 (or the date of death, if earlier). The bridge benefit is 0.65% (0.7% for members who terminated prior to March 1, 2002) of the lesser of the YMPE or the HAS. Certain limited groups of members (eg. provincial court judges, masters of the supreme court, and some deputy ministers and officers of the Legislature) receive different benefits.

Increases to pension payments may be provided each January 1 in accordance with the indexing provisions of the Plan. These increases are based on the annual increase in the Consumer Price Index (CPI) as at the previous September 30, and are subject to availability of funds in the Inflation Adjustment Account (Note 6 and 7b).

At January 1, 2004, retired members received a full CPI increase of 2.2% (2003 – 2.3%).

e) Termination and Portability Benefits

A terminating member who is eligible for a pension, but has not reached the earliest retirement age may choose:

- a deferred pension; or
- a transfer of the commuted value of the pension benefit (the minimum value is the members' contributions with interest) to a locked-in registered retirement savings plan or similar tax-sheltered plan.

A terminating member may also choose to leave monies on deposit in anticipation of future entitlements. A terminating member who is not eligible to receive a pension may also choose a refund of contributions with interest.

Where there are portability arrangements between the Plan and other pension plans, members may be able to transfer certain pension rights.

f) Other Benefits

Disability and survivor benefits are also available under the Plan. Supplemental benefits (Note 10) may also be funded from the Supplemental Benefits Account of the pension fund. Under certain circumstances, members may also reinstate or purchase additional service to increase their future pension benefits.

PUBLIC SERVICE PENSION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2004

1. DESCRIPTION OF THE PUBLIC SERVICE PENSION PLAN (continued)

g) Income Taxes

The Plan is a Registered Pension Plan (RPP), as defined in the *Income Tax Act* (Canada), except for any supplemental benefits (Note 10) which are funded in addition to the RPP. The Plan is not subject to income taxes.

2. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of Presentation

These financial statements present the Plan as a separate financial reporting entity, independent of the Plan's contributing employers and members, and independent of any associated retired member group benefit plans. The Statement of Net Assets Available for Benefits shows the assets under control of the trustees of the Plan, and does not purport to show their adequacy to meet the obligations of the Plan.

Certain comparative figures have been reclassified to conform with the current year's presentation.

b) Investments

Investments are stated at fair value and consist primarily of direct ownership in units of pooled investment portfolios. The units of pooled investment portfolios are valued regularly based on the value of the underlying assets. Where available, fair values of these assets are based on public market prices or quotations from investment dealers. Where public market prices or quotations are not available, fair values are derived using valuation methods such as discounted cash flows, earnings multiples, appraisals, prevailing market rates for instruments with similar characteristics and other pricing models, as appropriate. The value of derivative contracts is included in the fair value of pooled investment portfolios.

Investment purchases and sales are recorded on the trade date (the date upon which the substantial risks and rewards of ownership have been transferred).

PUBLIC SERVICE PENSION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2004

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Investment Income

Income from investments is recorded on the accrual basis and represents pooled investment portfolio income attributable to the Plan as a unit holder. The current period change in fair value includes realized and unrealized gains and losses.

Within the pools, dividends are accrued on the ex-dividend date. Income and expenses from derivative contracts are accrued as earned and included as income. Gains and losses on forward foreign exchange contracts are recognized concurrently with changes in fair values.

d) Use of Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of increases and decreases in assets during the period. Actual results could differ from those estimates. Significant areas requiring the use of management estimates relate to the valuation of investments and the estimate of the actuarial position of the Basic Account.

3. INVESTMENTS (FAIR VALUE)

	2004			2003
	Basic Account	Inflation Adjustment Account	Total	Total
	($ Thousands)			
Short-term	$ 231,318	$ 34,054	$ 265,372	$ 84,272
Canadian Bonds	2,832,720	894,168	3,726,888	3,509,195
Canadian Equities	2,719,925	813,948	3,533,873	3,013,198
U.S. Equities	1,115,155	328,341	1,443,496	791,515
International Equities	1,644,785	506,928	2,151,713	1,381,534
Foreign Currency	17,357	5,368	22,725	2,067
Mortgages	387,318	113,965	501,283	469,682
Real Estate	934,618	277,674	1,212,292	1,189,135
Private Placements	312,768	38,623	351,391	426,263
	$ 10,195,964	$ 3,013,069	$ 13,209,033	$10,866,861

PUBLIC SERVICE PENSION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2004

3. INVESTMENTS (FAIR VALUE) (continued)

Plan investments consist primarily of direct ownership in units of pooled investment portfolios, managed by bcIMC. Each unit gives its holder a proportionate share in the net assets of the pooled investment fund. One or more pooled investment portfolios exist for different types of investments, such as short-term investments, Canadian bonds and Canadian equities.

Short-term investments consist of Canadian and U.S. money market securities, such as treasury bills, with terms of 15 months or less. Canadian bonds consist of government and corporate bonds and debentures. Equities consist primarily of publicly traded shares and, in the case of international equities, refer to investments in Europe, Australia and the Far East. The foreign currency pooled fund engages in the buying and selling of foreign currency financial instruments to enhance returns through the active management of currency exposure.

Mortgages consist mainly of Canadian construction, commercial and multi-family residential mortgages. Real estate investments consist mainly of diversified Canadian income-producing properties. Private placements refer to Canadian and international long-term debt or equity investments made outside the structure of public markets (Note 11).

The mortgages are secured by real estate and are valued using current market yields. The real estate is valued quarterly by bcIMC's external real estate investment managers and at least, once every ten to eighteen months by accredited independent appraisers to establish current market values. Private placements are valued annually based on audited financial statements from private placement external managers.

The Plan also uses derivative contracts held indirectly through various pooled investment portfolios to enhance return, manage exposure to interest rate and foreign currency risk, and for asset mix management purposes. Derivative contracts are financial contracts, the value of which is derived from the value of underlying assets, indices, interest rates, or currency rates. The notional value of a derivative contract represents the amount to which a rate or price is applied in order to calculate the exchange of cash flows.

PUBLIC SERVICE PENSION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2004

4. INVESTMENT INCOME

	2004			2003
	Income Allocation	Current Period Change in Fair Value	Total	Total
	($ Thousands)			
Basic Account				
Short-term	$ 5,954	$ 195	$ 6,149	$ 4,417
Canadian Bonds	139,179	145,786	284,956	258,651
Canadian Equities	53,698	735,884	789,582	(494,155)
U.S. Equities	78,901	140,349	219,250	(257,189)
International Equities	55,818	393,166	426,984	(419,229)
Foreign Currency	1,461	5,898	7,359	111
Mortgages	25,967	8,557	34,524	31,177
Real Estate	46,684	14,230	60,914	55,880
Private Placements	5,851	(21,363)	(17,512)	(19,602)
Investment Income (Loss)	$389,504	$1,422,502	$1,811,806	$(821,917)

	2004			2003
	Income Allocation	Current Period Change in Fair Value	Total	Total
	($ Thousands)			
Inflation Adjustment Account				
Short-term	$ 526	$ 25	$ 551	$ 258
Canadian Bonds	41,796	60,350	102,146	119,527
Canadian Equities	15,580	216,745	232,325	(144,211)
U.S. Equities	21,460	45,914	67,374	(75,147)
International Equities	11,126	131,614	142,740	(159,448)
Foreign Currency	420	1,797	2,217	52
Mortgages	7,734	2,503	10,237	9,350
Real Estate	13,842	4,865	18,707	15,956
Private Placements	494	280	774	171
Investment Income (Loss)	$ 112,978	$ 464,091	$ 577,069	$(213,512)
Total Investment Income (Loss)	$ 502,282	$1,886,593	$ 2,388,875	$(1,035,429)

PUBLIC SERVICE PENSION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2004

4. INVESTMENT INCOME (continued)

The income allocation portion of investment income represents pooled investment portfolio income attributable to the Plan, as a unitholder, and as calculated by bcIMC, as well as interest income from directly held investments. All income earned within a pooled investment portfolio is reinvested within the portfolio.

5. CONTRIBUTIONS

	2004				2003
	Basic Account	Inflation Adjustment Account	Supplemental Benefits Account	Total	Total
				($ Thousands)	
Employers' contributions					
Province of British Columbia					
Regular	$ 68,172	$ 15,993	$ -	$ 84,165	$ 72,757
ERIP Contributions	4,101	1,578	-	5,679	8,175
Arrears	51	32	-	83	69
Purchase of service	6,526	3,245	-	9,771	6,743
Leave of absence	1,204	616	-	1,820	789
Reinstatement	2,955	74	-	3,029	943
Supplemental benefits	-	-	18,813	18,813	29,643
	$ 83,009	$ 21,538	$ 18,813	$ 123,360	$119,119
Other employers					
Regular	$ 46,240	$ 12,103	$ -	$ 58,343	$ 50,354
ERIP Contributions	109	47	-	156	600
Arrears	43	19	-	62	211
Purchase of service	2,952	1,414	-	4,366	1,679
Leave of absence	352	184	-	536	211
Reinstatement	-	-	-	-	112
Supplemental benefits	-	-	10,159	10,159	18,034
	$ 49,696	$ 13,767	$ 10,159	$ 73,622	71,201
Total Employers'	$132,705	$ 35,305	$ 28,972	$ 196,982	$190,320
Members' contributions					
Regular	$110,227	$ 30,231	$ -	$140,458	$138,547
Arrears	115	32	-	147	184
Purchase of service	8,875	2,570	-	11,445	4,387
Leave of absence	1,556	450	-	2,006	715
Reinstatement	7,971	1,073	-	9,044	3,216
Supplemental benefits	-	-	54	54	416
Total Members'	$128,744	$ 34,356	$ 54	$163,154	$147,465
Total Contributions	$261,449	$ 69,661	$ 29,026	$360,136	$337,785

PUBLIC SERVICE PENSION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2004

5. CONTRIBUTIONS (continued)

Member and employer contributions are as defined under the Plan rules.

Member regular Basic Account contributions of $54 thousand were allocated to the Supplemental Benefits Account to fund supplemental benefits.

Employer regular Inflation Adjustment Account contributions of $26.7 million were allocated to the Supplemental Benefits Account to fund group and supplemental benefits. Employer regular Basic Account contributions of $2.2 million were allocated to the Supplemental Benefits Account to fund supplemental benefits.

6. ACCOUNT TRANSFERS

	2004		2003	
	Basic Account	Inflation Adjustment Account	Basic Account	Inflation Adjustment Account
	($ Thousands)			
Present value of current indexing supplements	$ 75,320	$ (75,320)	$ 69,344	$ (69,344)
Indexing of deferred pensions	2,842	(2,842)	2,279	(2,279)
Excess interest	-	-	-	-
	$ 78,162	$ (78,162)	$ 71,623	$(71,623)

The Inflation Adjustment Account (IAA) is a separate account that is maintained to fund current and future indexing supplements. The IAA is funded through a portion of ongoing contributions from employers and members (Note 1c), from investment income earned on its own assets, and from excess interest earned in the Basic Account.

All pension payments are made from the Basic Account. Each year, when members' pension payments are adjusted for current indexing, monies are transferred from the IAA to the Basic Account to cover the present value of all future payments arising from the current indexing supplements.

When a deferred pension begins to be paid, the present value of the cost of living changes during the deferral period is also transferred from the IAA to the Basic Account.

PUBLIC SERVICE PENSION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2004

6. ACCOUNT TRANSFERS (continued)

There was no excess interest transfer to the IAA for the years ended March 31, 2003 and 2004. Excess interest is based only on investment income earned on those Basic Account assets required for pensions currently being paid, approximately $3.6 billion of assets for 2004 (2003: $3.3 billion). The excess interest rate of return is determined by taking the difference between the actual five-year average market rate of return and the rate of return used by the actuary (7.3%) in valuing the Plan's liabilities. The calculated excess interest rate of return for 2004 was -1.6%; (2003: -5.1%), resulting in a negative excess interest amount of $58.2 million (2003: $166.3 million). The cumulative negative excess interest amount is $224.5 million which will be offset against future positive excess interest amounts.

7. ACTUARIAL VALUATION OF THE BASIC ACCOUNT FOR FUNDING PURPOSES

a) Basic Account

An actuarial valuation of the Plan's assets and pension obligations is performed at least every three years by an independent actuary to determine an appropriate combined employer and member contribution rate to fund the Basic Account. For this purpose, the Plan's actuary values both accrued assets and benefit obligations to the financial statement date, as well as contributions and benefits for future service. The actuary's calculated contribution rate is based on the entry age method. This method produces the level rate of the member/employer contributions sufficient to provide benefits for the average future new entrants to the Plan.

The most recent full actuarial valuation for funding purposes was prepared as at March 31, 2002 by Eckler Partners Ltd. This valuation disclosed a surplus, for basic account pension benefits of $546 million (1999 - $929 million), assuming future contributions at the existing contribution rates in effect at the valuation date. The following long-term actuarial assumptions were used:

- annual investment return 7.3%
- annual salary escalation rate 4.8%

The next full valuation will be as at March 31, 2005, with results available for the March 31, 2006 financial statements.

The Joint Trust Agreement specifies that, if an actuarial valuation indicates that increased basic contribution rates are required, the increase must be shared equally by members and employers. The agreement also describes the manner in which the Board can elect to apply surplus assets.

PUBLIC SERVICE PENSION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2004

7. ACTUARIAL VALUATION OF THE BASIC ACCOUNT FOR FUNDING PURPOSES (continued)

b) Inflation Adjustment Account (IAA)

No unfunded liability exists for the IAA since the obligation for future indexing benefits is limited to the amount of the available assets in the account. As indexing is granted to retired members, full funding for that granted indexing, on a net present value basis, is transferred from the IAA to the Basic Account, from which the pensions are paid. There is no minimum level of indexing required to be paid under the Plan rules, nor is there any Plan provision to fund the IAA to any minimum level of future potential indexing.

The Board monitors the performance of the IAA and, at least annually, reviews a sensitivity analysis of the projected impact on the IAA of possible differing future economic trends. Such factors include inflation rates, real wage growth rates, real investment rates of return and group health benefits costs. This sensitivity analysis assists the Board to identify scenarios some years in advance of their possible occurrence, when the IAA assets may cease to grow and therefore, when full indexing of benefits may not be able to be granted. As long as there are contributions to the IAA, there will be some measure of indexing protection for retired members.

To help strengthen the Plan's IAA, the Public Service Pension Plan Partners entered into an agreement to amend the Plan rules. The agreement resulted in employer contributions to the IAA increasing by 0.25% of salaries on April 1, 2004 and a parallel 0.25% increase to Plan member contributions effective April 1, 2005.

8. ACTUARIAL VALUATION OF THE BASIC ACCOUNT FOR ACCOUNTING PURPOSES

An actuarial valuation is performed at least every three years. Its primary objective is to assess the financial position and adequacy of funding for the Basic Account of the Plan as described in Note 7a. As part of the actuarial valuation, the actuary also calculates values, for accounting purposes, for Basic Account assets as at, and pension liabilities accrued to, the financial statement date. For this purpose, contributions and benefits for future service are not included, in contrast to their inclusion in the valuation for funding purposes in Note 7a.

PUBLIC SERVICE PENSION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2004

8. ACTUARIAL VALUATION OF THE BASIC ACCOUNT FOR ACCOUNTING PURPOSES (continued)

The Basic Account is the account from which the defined basic benefits of the Plan are paid. It is also the account from which any indexing that has been granted to retired members is paid. Future indexing benefits are not guaranteed within the Plan provisions, and are granted to retired members only to the extent that sufficient assets are available from the IAA to fund those benefits. As indexing is granted, the Basic Account receives from the IAA the net present value funding necessary for the indexing granted. Therefore, accrued basic pension benefits for valuation purposes, include the liability for all indexing granted to the date of the valuation, but not for, as yet unknown, future indexing.

The latest full valuation was made as at March 31, 2002, by Eckler Partners Ltd., The results were as follows:

As at March 31	2002	1999
	($ Millions)	
Net assets available for basic pension benefits	$ 9,394	$ 8,293
Five year market value smoothing adjustment	253	(868)
Net actuarial assets for basic pension benefits	9,647	7,425
Liability for accrued basic pension benefits	(7,996)	(6,339)
Actuarial Surplus	$ 1,651	$ 1,086

The next full actuarial valuation will be at March 31, 2005 for inclusion in the March 31, 2006 financial statements.

The present value of liabilities for pension benefits accrued to the valuation date is determined using the projected benefit method prorated on service. Net assets are valued using five-year market value smoothing. For accounting purposes extrapolations between valuations are required to be calculated. Such an extrapolation has been made to March 31, 2004, using the following long-term actuarial assumptions.

- annual investment return 7.3%
- annual salary escalation rate 4.8%

PUBLIC SERVICE PENSION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2004

8. ACTUARIAL VALUATION OF THE BASIC ACCOUNT FOR ACCOUNTING PURPOSES (continued)

On this basis, the extrapolated value of the surplus at March 31, 2004 is as follows:

Extrapolated Actuarial Assets Available for Basic Pension Benefits

	2004	2003
	($ Millions)	
Net actuarial assets, beginning of year	$ 10,249	$ 9,647
Account transfers	78	72
Current year contributions	264	246
Net transfers to (from) other plans	(9)	(19)
Pension, termination and refund benefits	(435)	(396)
Interest accrued on assets	743	699
Net actuarial assets, end of year	$ 10,890	$ 10,249

Extrapolated Actuarial Liability for Accrued Basic Pension Benefits

	2004	2003
	($ Millions)	
Liability for accrued basic pension benefits, beginning of year	$ 8,570	$ 7,996
Account transfers	78	72
Current period benefit cost	354	335
Net transfers to (from) other plans	(9)	(19)
Pension, termination and refund benefits	(435)	(396)
Interest accrued on liability	624	582
Liability for accrued basic pension benefits, end of year	$ 9,182	$ 8,570
Extrapolated Actuarial Surplus March 31, 2004	**$ 1,708**	**$ 1,679**

Extrapolations may not be reliable indicators of the next valuation results nor do they necessarily reflect the overall trend of results. Between valuations, actual wage increases, investment earnings and the incidence of retirements, withdrawals, etc. may vary significantly from the long-term assumptions used in the extrapolation.

No unfunded liability exists for the IAA, since the obligation for future indexing benefits is limited to the amount of the available assets in the account.

PUBLIC SERVICE PENSION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2004

9. RELATED PARTY TRANSACTIONS

a) Transfers from Members of the Legislative Assembly ("MLA") Superannuation Account

	2004	2003
	($ Thousands)	
Present value of MLA pensions granted	$ 901	-
Contributions for indexing supplements	-	-
	$ 901	-

When a Member of the Legislative Assembly (MLA) is granted a pension, the present value of the pension is transferred from the Members of the Legislative Assembly Superannuation Account to the Plan, from which monthly benefits are paid. During the year ended March 31, 2004, two MLA pensions were granted (2003 – no members).

b) Investment and Administration Costs

	2004	2003
	($ Thousands)	
Investment Management	$19,008	$ 17,329
Benefit Administration	8,910	8,849
Board Remuneration and Expenses	173	158
Other Professional Services	206	298
	$28,297	$ 26,634

The bcIMC and the Pension Corporation are related parties to the Plan. The Board appoints members to each of the respective corporate boards.

Costs for investment management services charged by bcIMC include the costs for internal and external investment management fees.

Benefit administration costs represents amounts charged by the Pension Corporation for benefit administration services that are approved by the Board. Included in accounts payable is $2.2 million due to the Pension Corporation for those costs.

These transactions are in the normal course of operations and are measured at the exchange amount of consideration established and agreed to by the related parties.

Other professional services include actuarial, insurance, audit and legal fees.

PUBLIC SERVICE PENSION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2004

10. SUPPLEMENTAL BENEFITS ACCOUNT

The Supplemental Benefits Account is the account through which certain supplemental benefits are funded. For example, pension benefits which exceed the *Income Tax Act (Canada)* limits for registered pension plans are paid through this account. Certain retired member group benefit coverage may also be provided through this account. The availability, type and level of retired member group benefit coverage is contingent upon the availability of funds within the Supplemental Benefits Account to fund such benefits. To the extent that group benefits are funded from the Supplemental Benefits Account, they are funded from current employer inflation contributions and cannot exceed 50% of the total of current member and employer inflation adjustment contributions.

11. COMMITMENTS

The Plan participates in private placement and international equity pools that are managed by bcIMC. As at March 31, 2004, the Plan's share of commitments (over the next several years) for future investment contracts in these pools is approximately $267.7 million (2003: $301.2 million).

12. FINANCIAL INSTRUMENTS

The Plan's investments are recorded at fair value. Other financial instruments consist of cash, accounts receivable, accounts payable and accrued expenses. The fair values of these financial instruments approximate their carrying values.

Fair values of investments are exposed to price risk and credit risk. Price risk is comprised of currency risk, interest rate risk, and market risk. Currency risk relates to the possibility that the investments will change in value due to future fluctuations in foreign exchange rates. Interest rate risk relates to the possibility that the investments will change in value due to future fluctuations in market interest rates. Market risk relates to the possibility that the investments will change in value due to future fluctuations in market prices. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract.

Interest Rate Risk
The value of the Plan's assets is affected by changes in interest rates and their effect on capital markets. Pension liabilities are exposed to long-term market interest rates.

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12. FINANCIAL INSTRUMENTS (continued)

Foreign Currency Risk

Foreign currency exposure arises from the Plan's holdings of foreign-currency denominated investments and related derivative contracts. Foreign currency forward contracts are used to manage a portion of the currency exposure. A foreign currency forward contract is a contractual obligation either to buy or sell a specified amount of foreign currency at a predetermined future date and exchange rate.

Market Risk

The most important issue for the Plan is long-term investment results. The Board approves the long-term asset mix policy for investment assets and oversees the management of these assets through the Board's investment management agent, bcIMC. Investment risk is reduced through asset class diversification, diversification within each asset class and credit quality constraints on fixed income instruments.

Credit Risk

The Plan limits derivative contract credit risk by dealing principally with counterparties that have a credit rating of A or higher as rated by the Dominion Bond Rating Service or equivalent.

This is a publication of the
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